

FILED
June 25, 2010
**INDIANA UTILITY
REGULATORY COMMISSION**

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF SOUTHERN INDIANA)
GAS AND ELECTRIC COMPANY d/b/a)
VECTREN ENERGY DELIVERY OF)
INDIANA, INC. (VECTREN) FOR) CAUSE NO. 43839
AUTHORITY TO INCREASE ITS)
RATES AND CHARGES FOR)
ELECTRIC UTILITY SERVICES)**

**DIRECT TESTIMONY
OF
THOMAS S. CATLIN - PUBLIC'S EXHIBIT NO. 4
ON BEHALF OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

JUNE 25, 2010

EXETER

ASSOCIATES, INC.
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TESTIMONY OF MR. THOMAS S. CATLIN
CAUSE NO. 43839
VECTREN SOUTH-ELECTRIC

Qualifications

Q. Would you please state your name and business address?

A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, MD 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. Please describe your educational background.

A. I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q. Would you please describe your professional experience?

A. From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility construction projects. I also served as project engineer for two utility valuation studies.

From June 1977 until September 1981, I was employed by Camp Dresser & McKee, Inc. (CDM). Prior to transferring to the Management Consulting Division of CDM in April 1978, I was involved in both project administration and design.

1 My project administration responsibilities included budget preparation as well as
2 labor and cost monitoring and forecasting. As a member of CDM's Management
3 Consulting Division, I performed cost of service, rate, and financial studies involving
4 approximately 15 municipal and private water, wastewater and storm drainage
5 utilities. These projects included: determining total costs of service; developing
6 capital asset and depreciation bases; preparing cost allocation studies; evaluating
7 alternative rate structures and designing rates; preparing bill analyses; developing cost
8 and revenue projections; and preparing rate filings and expert testimony.

9 In September 1981, I accepted a position as a utility rates analyst with Exeter
10 Associates, Inc. I became a principal and vice-president of the firm in 1984. Since
11 joining Exeter, I have continued to be involved in the analysis of the operations of
12 public utilities, with particular emphasis on utility rate regulation. I have been
13 extensively involved in the review and analysis of utility rate filings, as well as other
14 types of proceedings before state and federal regulatory authorities. My work in
15 utility rate filings has focused on revenue requirements issues, but has also addressed
16 service cost and rate design matters. I have also been involved in analyzing affiliate
17 relations, alternative regulatory mechanisms, and regulatory restructuring issues.
18 This experience has involved electric, telephone, water and wastewater utilities, as
19 well as natural gas transmission and distribution companies.

20 **Q. Have you previously testified in regulatory proceedings on utility rates?**

21 A. Yes. I have previously presented testimony on more than 250 occasions before the
22 Federal Energy Regulatory Commission and the public utility commissions of
23 Arizona, California, Colorado, Delaware, the District of Columbia, Florida, Idaho,
24 Illinois, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New Jersey,

1 Ohio, Oklahoma, Pennsylvania, Rhode Island, Utah, Virginia and West Virginia, as
2 well as before this Commission. I have also filed rate case evidence by affidavit with
3 the Connecticut Department of Public Utility Control and have appeared as an expert
4 witness on behalf of the Louisiana Public Service Commission before the Nineteenth
5 Judicial District Court.

6 **Q. On whose behalf are you appearing?**

7 A. I am presenting testimony on behalf of the Indiana Office of Utility Consumer
8 Counselor (OUCC).

9

10 **Purpose and Conclusion**

11 **Q. What is the purpose of your testimony?**

12 A. Exeter Associates has been asked by the OUCC to review the reasonableness of the
13 level of revenues Southern Indiana Gas and Electric Company d/b/a Vectren Energy
14 Delivery of Indiana, Inc. – Electric Division (Vectren South or the Company) is
15 proposing to charge its customers. My assignment in this proceeding was to examine
16 and investigate the Company's revenue requirement, and to present my findings
17 regarding Vectren South's test year rate base and net operating income at present
18 rates. In developing my recommendations with regard to net operating income and
19 rate base, I have incorporated the recommendations of the other OUCC witnesses.
20 These include the recommendations of Mr. Greg A. Foster regarding various labor
21 related costs, Mr. Eric Hand regarding incremental costs related to the Emerald Ash
22 Borer, Ms. Cynthia M. Armstrong with respect to emissions allowance expense, Dr.
23 David E. Dismukes regarding wholesale power margins and Mr. Michael D. Eckert
24 pertaining to coal inventory. I also relied upon information provided by Mr. Anthony

1 A. Alvarez in determining the adjustment to revenues necessary to account for lost
2 sales due to two major storms that occurred during the test year. Based on my
3 findings, I have determined the revenues that are required to generate the overall rate
4 of return on rate base recommended by Mr. Korlon Kilpatrick on behalf of the
5 OUCC.

6 **Q. Have you prepared schedules to accompany your testimony?**

7 A. Yes, I have. Schedules TSC-1 through TSC-29 are attached to my testimony. These
8 schedules present my findings and recommendations regarding the Company's pro
9 forma test year revenue requirements.

10 **Q. Please summarize your findings regarding the Company's revenue requirement.**

11 A. As shown on Schedule TSC-1, I have determined the Company has a revenue
12 deficiency of \$10,975,631 for the test year ended June 30, 2009. This amount is
13 \$30,193,785 less than the revenue increase of \$41,889,416 requested by Vectren
14 South in its Supplemental Direct Testimony and Exhibits filed on May 21, 2010.
15 This increase in revenues will generate an overall rate of return of 6.79 percent after
16 accounting for the OUCC's adjustments to Vectren South's claimed rate base and
17 operating income. The return of 6.79 percent represents Mr. Kilpatrick's finding
18 regarding the Company's cost of equity capital and overall fair rate of return on rate
19 base.

20 Schedule TSC-2 summarizes my adjustments to Vectren South's proposed test
21 year rate base. Schedule TSC-3 provides a summary of my adjustments to test year
22 revenues and expenses and the resulting net operating income at present rates.
23 Schedule TSC-4 provides a proof of income taxes at present and proposed rates.
24 Schedules TSC-5 through TSC-28 present each of the adjustments that I have made to

1 rate base and net operating income. Schedule TSC-29 provides a comparison of
2 Vectren South's and the OUCC's calculation of the required revenue increase. This
3 schedule serves to summarize the differences in rate base, rate of return, operating
4 income and the revenue conversion factor between the Company and the OUCC.

5 **Q. How is the remainder of your testimony organized?**

6 A. In the remainder of my testimony, I document and explain each of the adjustments to
7 rate base and operating income I have made to arrive at the test year revenue
8 deficiency shown on Schedule TSC-1. My discussion of these adjustments is
9 organized into sections corresponding to the issue being addressed. These sections
10 are set forth in the Table of Contents for this testimony.

11

12

Weather Normalization

13 **Q. Please explain what adjustment the Company made related to weather**
14 **normalization in its filing.**

15 A. In its filing, Vectren South adjusted test year sales to reflect normal heating degree
16 days (HDD) and cooling degree days (CDD).

17 **Q. Do you agree that such an adjustment is appropriate?**

18 A. Yes, I agree that it is reasonable to adjust sales to reflect normal weather. However,
19 the methodology followed by the Company produced some anomalous results.

20 **Q. Please explain.**

21 A. The weather normalization methodology relied upon by Vectren South utilized actual
22 billed sales by month and rate step (rate block) for each customer class. As part of
23 this procedure, the Company determined baseload (non-weather sensitive) sales based
24 on the average sales in May and November by rate step. Because sales in May and
25 November include some sales that are weather sensitive, the Company's calculation

1 resulted in instances where the relationship between sales and temperatures was
2 negative (i.e., sales per degree day were negative). For example, adjusting for fewer
3 than normal HDD resulted in a reduction rather than an increase in sales in the first
4 rate steps for Rate A and Rate EH residential customers. In addition, adjusting for
5 fewer than normal HDD resulted in an overall reduction in winter sales to Rate DGS
6 customers.

7 **Q. What revision are you proposing to make to Vectren South's weather**
8 **normalization adjustment?**

9 A. I am proposing to revise the adjustment to sales to reflect normal HDD and CDD to
10 reflect an alternative calculation that Vectren South provided in response to OUCC
11 Data Request Set 2, Question 18 (OUCC 2-18). Under this alternative methodology,
12 total base load was determined by rate class as a whole rather than by rate step to
13 avoid negative sales in some rate steps. In addition, the negative sales for the Rate
14 DGS rate class were eliminated.

15 **Q. Have you prepared a schedule showing the effect of your adjustment on test year**
16 **revenues and expenses?**

17 A. Yes. Schedule TSC-5 presents my adjustment to test year revenues and expenses to
18 reflect my revised weather normalization adjustment. As shown there, test year
19 revenues increased by \$64,344. After accounting for the associated increase in the
20 cost of fuel (net of Indiana Utility Receipts Tax expense), the adjustment to net
21 margin is \$46,915.

Storm Related Sales Losses

Q. Please summarize how Vectren South's service territory was affected by major storms during the test year.

A. As discussed in more detail by OUCC Witness Anthony A. Alvarez, Vectren South experienced two major storms in its service area that caused significant customer outages during the test year. First, in September 2008, Hurricane Ike caused extended outages to approximately 50,000 customers over a period of seven days. Second, the Company's service territory was struck by a significant ice storm in late January 2009 that resulted in 75,000 customers experiencing extended outages and that required eight days to fully restore service.

Q. Did the Company make any adjustment to account for the sales and revenue loss it experienced as the result of these storms?

A. No. According to the responses to OUCC 2-11, 22-1 and 22-13, Vectren South was unable to quantify or estimate the lost sales because of the nature of the storms and severity of the damage, along with the service restoration pattern and timing.

Q. Are you proposing an adjustment to revenues to account for the sales lost due to Hurricane Ike and the January 2009 ice storm?

A. Yes. As explained by Mr. Alvarez, Vectren South provides power outage reports to the Commission that identify the number of customers without power during the course of a major outage event. Based on those reports, Mr. Alvarez prepared a schedule showing the number of customers without power at each reporting interval during the outages caused by the Hurricane Ike and the January 2009 ice storm. Utilizing the customer outage duration information provided by Mr. Alvarez, I have prepared an estimate of the revenue lost as a result of those two major events and am proposing to increase test year revenue to eliminate the effect of the two storms on test year sales.

1 **Q. Please explain how you calculated the lost sales and revenue.**

2 A. To calculate the revenue loss, I first calculated the average sales per customer for
3 residential customers (Rates A and EH) using sales adjusted for normal days of
4 service and normal weather. For Hurricane Ike, I utilized billed sales in the month of
5 September 2008 because the outages occurred during the middle of the month. For
6 the January ice storm, customer outages lasted from January 27 through February 4,
7 2009. Therefore, I utilized billed sales in February 2009 because late January usage
8 is normally billed primarily in February due to cycle billing.

9 The second step in my calculation was to divide the average usage per
10 residential customer in September and February by the normalized billing days in
11 each month and then by 24 to determine the average use per hour per customer. This
12 is shown on page 4 of Schedule TSC-6. I then multiplied these usage figures by the
13 number of customers without service during each hour of the outage to determine the
14 total kWh sales lost. For example, there was an average of 53,833 customers¹
15 without service during the two-hour reporting period from 9:00 A.M. to 11:00 A.M.
16 on January 30, 2009. I multiplied 53,833 customers times 2 hours times the average
17 hourly usage per customer of 1.53383 kWh to arrive at a sales loss for that period of
18 165,142 kWh. Doing this for all periods for each storm, I calculated total sales losses
19 of 2,428,706 kWh due to Hurricane Ike and 8,832,648 kWh for the January 2009 ice
20 storm. These calculations are shown on page 3 of Schedule TSC-6.

¹ 53,833 customers is the average of the number of customers without service at the beginning of the two-hour period (50,398) and the number at the end of the period (57,268), as shown on page 3 of Schedule TSC-6.

1 **Q. Why did you calculate the sales lost due to the storm on the usage of residential**
2 **customers?**

3 A. While outages of the magnitude of Hurricane Ike and the January ice storm certainly
4 affect other types of customers, I made the assumption that all of the customers who
5 were without power were residential customers in order to be conservative. Had I
6 included non-residential customers in my analysis, it would have resulted in larger
7 sales losses. I would note that because I did not include commercial or industrial
8 customers in calculating the sales and revenue losses due to the storms, I excluded
9 residential water heating (Rate B) customers and only included Rate A and Rate EH
10 customers.

11 **Q. How did you calculate the revenue associated with the lost sales?**

12 A. I allocated the total sales loss associated with each storm to the Rate A and Rate EH
13 rate steps in proportion to the normalized billed sales rate step in the relevant month
14 (September for Hurricane Ike and February for the ice storm). I then applied the
15 current rates applicable to these rate steps to derive the revenue lost due to each
16 storm. These calculations are shown on page 2 of Schedule TSC-6.

17 **Q. Please summarize your adjustment.**

18 A. As shown on page 1 of Schedule TSC-6, I have conservatively estimated the revenue
19 loss due to Hurricane Ike to be \$258,510, including \$200,886 of base revenues and
20 \$57,624 of fuel revenue. For the ice storm, I have estimated the revenue loss to be
21 \$852,996, comprised of \$643,433 of base revenues and \$209,563 of fuel revenue.
22 Overall, my adjustment increases total revenues by \$1,111,507 and the pro forma
23 margin (net of the cost of fuel) by \$848,408.

24

Transmission Revenue

Q. Did the Company make an adjustment to wholesale transmission revenues in its filing?

A. No. In its filing, Vectren South made no adjustments to the test year wholesale (non-RECB) transmission revenues per books of \$4.64 million in developing its pro forma operating results. Vectren South Witness Michael W. Chambliss stated that the Company does not expect those revenues to change appreciably in the future.

Q. Are you proposing to adjust the wholesale transmission revenues that are recognized as a credit to revenue requirements?

A. Yes. As noted by Mr. Chambliss in his direct testimony, wholesale transmission revenues over the past few years were greater than expected due primarily to higher revenues from Alcoa and, to a lesser extent, MISO member returns. The higher revenues from Alcoa were the result of Alcoa's use of Vectren South's transmission system during its now completed work on its own generating units. However, the \$4.64 million of test year transmission revenues per books was reduced by a \$2.55 million credit related to the transmission revenue sharing that was in place until May 2009.

In order to recognize a more representative ongoing level of wholesale transmission revenues, I am proposing to adjust the test year level of such revenues to reflect the actual revenues for the twelve months ending March 31, 2010, the most recent period for which data is available to me. As shown on Schedule TSC-7, this adjustment increases the wholesale revenues recognized as an offset to revenue requirements by \$960,217. In making this adjustment, I have excluded the revenues during the twelve months ended March 31, 2010 related to transmission revenue sharing.

Ethanol Facility Revenue and Costs

Q. Please summarize the treatment that Vectren South afforded ethanol facility revenues and costs in its filing.

A. In its filing, Vectren South has excluded the investment in electric infrastructure that it constructed in conjunction with the announced plans of two ethanol facilities to construct and operate plants in the Company's service territory. As noted on page 9 of the testimony of Vectren South Witness Thomas L. Bailey, construction of one of the ethanol plants has stalled and the other began the ramp-up stage of operations after the test year. According to Mr. Bailey, because of the uncertainty surrounding the ability of the ethanol plants to operate successfully, the Company has removed its investment in infrastructure to serve those plants and has similarly not included any revenue it receives from the ethanol facilities in determining operating income.

Q. Do you agree this treatment is appropriate?

A. No. Since the ramp-up of the operations at the ethanol facility that came on line in July 2009, Vectren South has realized average non-fuel margins of nearly \$300,000 per month over the period November 2009 through March 2010. These revenues are well in excess of the costs (depreciation, return and taxes) associated with the infrastructure constructed by Vectren South to serve the ethanol plants. It would be inappropriate to allow the Company to retain those margins as it has proposed. Accordingly, I am proposing to include the revenues and costs associated with serving the ethanol facilities in the determination of Vectren South's pro forma operating income and rate base.

1 **Q. What is the effect of your recommendation on revenues, expenses and rate base?**

2 A. As shown on Schedule TSC-8, I have adjusted revenues to include \$3,075,097 of
3 annualized non-fuel margins from ethanol facilities. This is based on actual revenues
4 for November 2009 through March 2010 and projected revenues for April 2010
5 through October 2010. This twelve-month period represents the first full year of
6 operation of the ethanol facility after the initial ramp up. As can be seen on Schedule
7 TSC-8, the Company's projections of monthly revenues from April on are well below
8 the actual revenues in recent months. Therefore, I believe the annual revenues I have
9 included are likely to be conservative.

10 As also shown on Schedule TSC-8, I have adjusted plant in service and
11 accumulated depreciation to include the balances that the Company removed from
12 rate base in its filing. This increases rate base by \$6,144,932. The depreciation
13 expense associated with this plant in service is \$155,754.

14
15 **Wholesale Power Marketing Margins**

16 **Q. Would you please explain the adjustment that you have included in your**
17 **analysis of Vectren South's revenue requirements for increased wholesale power**
18 **marketing margins?**

19 A. Yes. I have adjusted test year revenues to reflect Dr. Dismuke's recommendation
20 regarding the appropriate level of wholesale power marketing (WPM) margins to be
21 reflected in determining Vectren South's base rates. As shown on Schedule TSC-9,
22 this adjustment increase test year margins \$4,016,275.

23

Late Payment Charge Revenue

Q. What adjustment are you proposing to late payment charge revenue?

A. Just as uncollectibles expense increases or decreases with increases or decreases in customers' bills, the charge that is assessed for paying those bills late also increases or decreases. In its filing, Vectren South adjusted uncollectibles expense to reflect changes in test year revenues, but did not adjust to reflect the change that will occur in late payment charge revenue. I am proposing to adjust test year revenues to reflect the relationship between late payment charge revenues and electric service revenues.

To reflect this relationship, I have utilized a three-year average ratio of late payment charges to retail revenues for the same three-year period that Vectren South used to measure the relationship between uncollectible expense and revenues. As shown on Schedule TSC-10, this adjustment results in an increase in late payment charges based on pro forma revenue at present rates of \$339,777. It is also important to recognize that late payment charge revenue will also increase as the result of any increase in retail rates that is allowed in this proceeding and this should be accounted for in determining the additional revenues to be derived from increases in the rates for electric service.

Labor Related Cost Adjustments

Q. Please summarize the adjustments to labor related costs you have incorporated in your determination of Vectren South's revenue requirements.

A. In determining Vectren South's revenue requirements, I have incorporated the six adjustments to labor related costs recommended by OUCC Witness Greg A. Foster. Schedule TSC-11 summarizes Mr. Foster's adjustment to labor expense to reflect known employees and wages as of March 31, 2010. This adjustment reduces labor

costs, including direct labor and fringe loadings by \$860,480. Schedule TSC-12 summarizes Mr. Foster's adjustment to restricted stock and stock options expense, which reduces O&M expense by \$880,660. Mr. Foster's adjustments to incentive compensation and deferred compensation expense are presented on Schedules TSC-13 and TSC-14, respectively. The adjustment to incentive compensation reduces O&M expense by \$1,092,677 and his adjustment to deferred compensation reduces expenses by \$569,311. Finally, Mr. Foster's adjustments to pension and postretirement benefits costs are presented on Schedules TSC-15 and TSC-16, respectively. His adjustment to pension expense reduces Vectren South's claimed allowance by \$522,099 while his adjustment to postretirement benefits costs results in an increase of \$102,003 compared to the Company's claimed expense.

Amortization of MISO Day 1 and MISO Day 2 Deferrals

Q. Please summarize the deferred expense amortizations included in Vectren South's pro forma cost of service.

A. The settlement approved in Cause No. 43111 provided for the amortization over four years of the deferred balances of MISO Day 1 and MISO Day 2 costs. Those amortizations are scheduled to be completed in August 2011.² In its filing, Vectren South proposed to extend the amortization of the remaining balances of these MISO related cost deferrals as of June 30, 2010 to five years in order to moderate its requested rate increase.

² A three-year amortization of deferred New Source Review (NSR) legal expenses was also approved in Cause No. 43111. That amortization will be complete by August 2010, and Vectren South eliminated the NSR related amortization expense from its pro forma cost of service.

1 **Q. What adjustment are you proposing to make to the amortization of MISO Day 1**
2 **and MISO Day 2 costs?**

3 A. The June 30, 2010 date used by Vectren South for determining the remaining
4 unamortized balances of MISO Day 1 and MISO Day 2 costs was based on the end of
5 the pro forma period and an early July 2010 effective date for the rates approved in
6 this proceeding. Based on the current procedural schedule for this case, new rates are
7 unlikely to be implemented until late 2010 or early 2011. Accordingly, I am
8 proposing to adjust the deferred balances of MISO Day 1 and MISO Day 2 costs
9 remaining to be amortized to reflect an assumed rate implementation date of January
10 1, 2011. It would be appropriate to adjust these balances to reflect the actual effective
11 date for the rates approved in this proceeding.

12 **Q. Have you prepared schedules showing the calculation of the effect of utilizing**
13 **December 31, 2010 rather than June 30, 2010 remaining balances?**

14 A. Yes. Schedule TSC-17 presents the calculation of my adjustment to the amortization
15 of MISO Day 1 costs and Schedule TSC-18 shows my adjustment related to MISO
16 Day 2 costs. As shown on those schedules, utilizing the December 31, 2010 rather
17 than June 30, 2010 remaining balances reduces MISO Day 1 amortization expense by
18 \$166,534 and MISO Day 2 amortization expense by \$400,826.

19
20 **Rate Case Expense**

21 **Q. What adjustment have you made to Vectren South's rate case expense claim?**

22 A. Vectren South's filed cost of service includes the five-year amortization of the costs
23 of the current rate case based on estimates of those costs at the time the Company
24 prepared its filing. In response to OUCC 17-23, the Company has provided an update
25 of its projected rate case expenses and I have updated the pro forma cost of service to

1 recognize this revision. As shown on Schedule TSC-19, this adjustment reduces pro
2 forma test year expenses by \$14,600.

3

4

Emerald Ash Borer Expense

5 **Q. Please explain the adjustment to Emerald Ash Borer expense that you have**
6 **included in your determination of test year revenue requirements.**

7 A. Consistent with the recommendation of OUCC Witness Eric Hand, I have removed
8 the incremental distribution line clearance costs requested by Vectren South related to
9 the Emerald Ash Borer. As shown on Schedule TSC-20, this adjustment reduces test
10 year expense by \$667,590.

11

12

Emission Allowance Expense

13 **Q. Please explain the adjustment to emission allowance expense that you have**
14 **included in the determination of Vectren South's pro forma cost of service.**

15 A. I have adjusted the amount included in the pro forma cost of service to reflect OUCC
16 Witness Cynthia M. Armstrong's recommendation that emission allowance expense
17 be based on the five-year average level of such costs. As shown on Schedule TSC-21
18 incorporating Ms. Armstrong's adjustment reduces test year expenses by \$379,481.

19

20

Gypsum Disposal Costs

21 **Q. Please summarize how Vectren South determined its claimed pro forma test**
22 **year expense for gypsum disposal costs.**

23 A. During the test year, Vectren South's costs for disposing of gypsum produced by the
24 Culley scrubber were less than the price for which the Company was able to sell the
25 gypsum. As a result, Vectren South realized income of just over \$450,000.
26 However, after the end of the test year, the wall board manufacturer to which the

1 gypsum is sold exercised a contract provision allowing it to reopen the contract if it
2 could demonstrate it could obtain the gypsum less expensively from a third party. At
3 the time of its filing, the Company was in the process of renegotiating its contract for
4 the disposal of the Culley gypsum. Accordingly, Vectren South adjusted gypsum
5 disposal costs to reflect projected 2010 Culley production and a projected net disposal
6 cost of \$8.00 per ton under the renegotiated contract. This resulted in claimed costs
7 of \$1,343,780.

8 **Q. What adjustment are you proposing to make to the allowance for gypsum**
9 **disposal costs requested by the Company?**

10 A. Recently, Vectren South completed negotiations for new disposal arrangements for
11 the gypsum produced by the Culley scrubbers. In response to an informal follow-up
12 to OUCC 17-5, Vectren South provided an update of its Adjustment A34 to reflect
13 the pro forma costs under the new arrangements. I have adjusted pro forma gypsum
14 disposal expense to reflect the updated costs. As shown on Schedule TSC-22, this
15 adjustment reduces Vectren South's claimed pro forma gypsum disposal costs by
16 \$336,088.

17
18 **Credit Facility Fees**

19 **Q. Please summarize the costs that Vectren South records as credit facility fees.**

20 A. Vectren Utility Holdings, Inc. (VUHI) maintains a credit facility to meet the short-
21 term borrowing needs of itself and its three operating utilities including Vectren
22 South. A portion of the fees associated with this credit facility is allocated to Vectren
23 South and is included as an operating expense. During the test year, the credit facility
24 fees charged to Vectren South electric operations were \$280,689.
25

1 **Q. What adjustment did Vectren South make to the test year credit facility fees for**
2 **purposes of establishing its pro forma expense claim?**

3 A. VUHI's existing credit facility expires in November 2010 and will have to be
4 replaced at that time. Vectren South has adjusted test year expenses to reflect a
5 projection of the fees it expects to incur under the new credit facility.

6 **Q. Do you agree this adjustment is appropriate?**

7 A. No. The existing credit facility expires five months after the June 30, 2010 cut-off
8 date for changes that are fixed, known and measurable as established by the
9 Prehearing Conference Order in this proceeding. Moreover, the projected fees
10 associated with the new credit facility are estimates and are neither known nor
11 certain. Accordingly, I have adjusted test year operating expenses to remove the pro
12 forma increase claimed by Vectren South. This adjustment reduces test year O&M
13 expense by \$867,386 as shown on Schedule TSC-23.

14
15 **Uncollectibles Expense**

16 **Q. What adjustment have you made to uncollectibles expense?**

17 A. As I noted previously in explaining my adjustment to late payment charge revenue,
18 Vectren South adjusted test year uncollectible expense to reflect a three-year average
19 uncollectible ratio applied to pro forma revenues at present rates. I have further
20 adjusted uncollectibles expense to account for the adjustments to revenue that I have
21 recommended. As shown on Schedule TSC-24, this adjustment increases
22 uncollectibles expense by \$14,191.

Indiana Utility Regulatory Commission Fee

Q. What adjustment have you made to the Indiana Utility Regulatory Commission (IURC) fee?

A. The IURC fee is based on total revenues net of miscellaneous revenue, wholesale power marketing revenue and transmission revenue. Therefore, I have adjusted the IURC fee at present rates to be consistent with the pro forma revenues at present rates inclusive of the adjustments that I have recommended on behalf of the OUCC. As shown on Schedule TSC-25, this adjustment increases IURC fees by \$4,929.

Asset Charge

Q. Please explain your adjustment to the asset charge from Vectren Utilities Holdings, Inc.

A. Vectren South pays an asset charge to VUHI for the use of the information technology assets owned by VUHI. This asset charge includes the depreciation, property taxes, return and income taxes on those assets. Vectren South has calculated the return and income tax component of the pro forma asset charge based on the Company's claimed cost of capital. To develop the OUCC's recommended cost of service, I have adjusted the asset charge to reflect the overall rate of return recommended by OUCC Witness Korlon Kilpatrick. As shown on Schedule TSC-26, this change reduces the asset charge by \$456,252. Ultimately, the asset charge should be based on the rate of return approved by the Commission.

Indiana Utility Receipts Tax

Q. What adjustment have you made to the pro forma allowance for Indiana Utility Receipts Taxes?

A. The Indiana Utility Receipts Tax (IURT) is determined based on revenues net of wholesale power marketing revenue, transmission revenue and uncollectibles expense. Therefore, I have adjusted the level of IURT at present rates to reflect my adjustments to revenues and uncollectibles expense. As shown on Schedule TSC-27, this adjustment increases the IURT at present rates by \$51,281.

Coal Inventory Balance

Q. What adjustment have you made to the balance of coal inventory included in rate base?

A. I have adjusted rate base to incorporate the 13-month average balance of coal inventory as recommended by OUCC Witness Michael D. Eckert. As shown on Schedule TSC-28, this adjustment reduces rate base by \$11,176,634.

Interest Synchronization

Q. Please explain your adjustment to synchronize interest expense.

A. To determine the interest deduction for income tax purposes, I have multiplied the OUCC's recommended rate base by the weighted cost of debt included in the capital structure utilized by Mr. Kilpatrick. This procedure synchronizes the interest deduction for income tax purposes with the interest component of the return on rate base to be recovered from ratepayers. As shown at the bottom of Schedule TSC-4, this adjustment reduces the interest deduction by \$203,840 compared to the

1 synchronized interest deduction recognized by Vectren South. This increases state
2 income taxes by \$17,331 and federal income taxes by \$65,278.

3 **Q. Does this complete your direct testimony?**

4 A. Yes, it does.

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**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

PETITION OF SOUTHERN INDIANA)	
GAS AND ELECTRIC COMPANY)	
d/b/a VECTREN ENERGY)	
DELIVERY OF INDIANA, INC.)	
(VECTREN) FOR AUTHORITY TO)	CAUSE NO. 43839
INCREASE ITS RATES AND)	
CHARGES FOR ELECTRIC)	
UTILITY SERVICES)	

SCHEDULES ACCOMPANYING THE

DIRECT TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JUNE 25, 2010

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044

VECTREN SOUTH
Electric Tariff

Summary of Operating Income
Test Year Ending June 30, 2009

	Company Amounts at Present Rates	OUC Adjustments	Amounts per OUC at Present Rates	Revenue Increase/ (Decrease)	Amounts After Revenue Increase
Operating Revenue	\$ 553,658,624	\$ 9,567,217	\$ 563,225,841	\$ 10,975,631	\$ 574,201,472
<u>Operating Revenue Deductions</u>					
Fuel and Purchased Power	220,149,092	(718,416)	219,430,676	-	219,430,676
Operation & Maintenance Expense	138,514,066	(5,637,665)	132,876,401	45,712	132,922,113
Asset Charge	11,289,585	(456,252)	10,833,333	-	10,833,333
Depreciation Expense	74,255,452	155,754	74,411,206	-	74,411,206
Taxes Other Than Income	15,359,799	51,281	15,411,080	153,184	15,564,264
Total Operating Revenue Deductions	\$ 459,567,994	\$ (6,605,298)	\$ 452,962,696	\$ 198,896	\$ 453,161,592
Operating Income Before Taxes	\$ 94,090,630	\$ 16,172,515	\$ 110,263,145	\$ 10,776,735	\$ 121,039,880
<u>Income Taxes</u>					
State Income Tax	5,918,379	1,396,737	7,315,116	929,301	8,244,417
Income Taxes-Medicare Part D Subsidy	433,778	-	433,778	-	433,778
Federal Income Tax	16,132,806	5,242,866	21,375,672	3,446,602	24,822,274
Total Income Taxes	\$ 22,484,963	\$ 6,639,603	\$ 29,124,566	\$ 4,375,903	\$ 33,500,469
Utility Operating Income	\$ 71,605,667	\$ 9,532,912	\$ 81,138,579	\$ 6,400,832	\$ 87,539,411
Rate Base	\$ 1,294,271,920	(5,031,702)	\$ 1,289,240,218		\$ 1,289,240,218
Rate of Return	5.53%		6.29%		6.79%

VECTREN SOUTH
Electric Tariff

Determination of Revenue Increase/(Decrease)
Test Year Ending June 30, 2009

		Amount	Source
OUCR Recommended Rate Base		\$ 1,289,240,218	Schedule TSC-2
Required Rate of Return		6.79%	
Net Operating Income Required		\$ 87,539,411	
Net Operating Income at Present Rates		81,138,579	Schedule TSC-3
Required Increase in Net Operating Income		\$ 6,400,832	
Revenue Multiplier		1.71472	See Note (1)
Revenue Increase/(Decrease)		\$ 10,975,631	
Revenue Increase/(Decrease)		\$ 10,975,631	
Uncollectibles	0.3091%	33,929	
Base for Indiana Utility Receipts Tax		10,941,702	
Indiana Utility Receipts Tax	1.40%	153,184	
IURC Fee	0.1074%	11,783	
Subtotal		\$ 10,776,735	
State Taxable Income		\$ 10,929,919	
State Income Tax	8.50236%	929,301	
Federal Taxable Income		\$ 9,847,434	
Federal Income Tax	35.00%	3,446,602	
Net Income Surplus/(Deficiency)		\$ 6,400,832	

Notes:

(1) Calculation of Conversion Factor

Revenues		1.000000
Bad Debt		0.003091
Base for Indiana Utility Receipts Tax	0.996909	
Indiana Utility Receipts Tax	0.01400	0.013956722
IURC Fee		0.00107360
Subtotal		0.981878387
Indiana State Taxable Income	0.995835	
Indiana SIT Rate	0.08500	
State Income Tax		0.08464598
Effective Kentucky State Income Tax Rate (2)	0.00002359	0.00002349
Net Federal Taxable Income	0.89720891	
FIT Rate	0.35000	
Federal Income Tax		0.31402312
Revenue Conversion Factor		0.583185792
Revenue Multiplier		1.71472

(2) Reflects correction of Company calculation, which applied Kentucky tax rate to total income instead of to state taxable income. Difference is de minimus.

VECTREN SOUTH
Electric Tariff

Summary of Rate Base
Test Year Ending June 30, 2009

<u>Description</u>	<u>Amount Per Company Filing (1)</u>	<u>OUCC Adjustments</u>	<u>Adjusted Per OUCC</u>
Electric Plant in Service	\$ 1,842,897,434	\$ -	\$ 1,842,897,434
Completed Not Classified	234,778,571	-	234,778,571
Addition-Large Customer Transmission Project	4,040,000	-	4,040,000
Addition-Large Transmission Projects	15,000,000	-	15,000,000
Addition-Ash Disposal Project	20,000,000	-	20,000,000
Removal-Large Customer Transmission Projects	(6,194,048)	6,194,048	-
Total Plant	\$ 2,110,521,957	\$ 6,194,048	\$ 2,116,716,005
Accumulated Depreciation	(898,152,647)	(49,116)	(898,201,763)
Net Utility Plant	\$ 1,212,369,310	\$ 6,144,932	\$ 1,218,514,242
Materials & Supplies	63,150,245	(11,176,634)	51,973,611
DSM Regulatory Asset	18,400,327	-	18,400,327
MISO Day 2 Startup Costs	352,038	-	352,038
Total Rate Base	<u>\$ 1,294,271,920</u>	<u>\$ (5,031,702)</u>	<u>\$ 1,289,240,218</u>

Note:

(1) Company Exhibit No. MSH-3, Adjustment A54, page 2 of 3.

VECTREN SOUTH
Electric Tariff

Summary of Adjustments to Rate Base
Test Year Ending June 30, 2009

	<u>Amount</u>	<u>Source</u>
Rate Base per Company Filing	\$ 1,294,271,920	See Note (1)
<u>OUCC Adjustments</u>		
Ethanol Facility Infrastructure	6,144,932	Schedule TSC-8
Coal Inventory	<u>(11,176,634)</u>	Schedule TSC-28
Total OUCC Adjustments	\$ (5,031,702)	
OUCC Adjusted Rate Base	<u><u>\$ 1,289,240,218</u></u>	

Note:

(1) Company Exhibit No. MSH-3, Adjustment A54, page 2 of 3.

VECTREN SOUTH
Electric Tariff

Summary of Adjustments to Net Income
Test Year Ending June 30, 2009

	Amount	Source
Net Income per Company	\$ 71,605,667	Exhibit MSH-2
<u>OUCC Adjustments</u>		
Weather Normalization	27,902	Schedule TSC-5
Storm Related Sales	504,577	Schedule TSC-6
Transmission Revenue	571,074	Schedule TSC-7
Ethanol Facilities	1,736,235	Schedule TSC-8
Wholesale Power Marketing Margins	2,388,618	Schedule TSC-9
Late Payment Revenue	202,077	Schedule TSC-10
Annualized Labor Costs	511,757	Schedule TSC-11
Restricted Stock Expense	523,759	Schedule TSC-12
Annual Incentive Compensation Expense	649,853	Schedule TSC-13
Deferred Compensation Expense	338,589	Schedule TSC-14
Pension Expense	310,510	Schedule TSC-15
Postretirement Medical Expense	(60,665)	Schedule TSC-16
Deferred MISO Day 1 Cost Amortization	99,043	Schedule TSC-17
Deferred MISO Day 2 Cost Amortization	238,385	Schedule TSC-18
Rate Case Expense Amortization	8,683	Schedule TSC-19
Incremental Ash Borer Expense	397,039	Schedule TSC-20
Emissions Allowance Expense	225,691	Schedule TSC-21
Gypsum Disposal Fees	199,883	Schedule TSC-22
Credit Facility Fees	515,865	Schedule TSC-23
Uncollectibles	(8,440)	Schedule TSC-24
IURC Fee	(2,931)	Schedule TSC-25
Asset Charge	271,349	Schedule TSC-26
Indiana Utility Receipts Tax	(33,333)	Schedule TSC-27
Interest Synchronization	(82,609)	Schedule TSC-4
Total OUCC Adjustments	\$ 9,532,912	
OUCC Adjusted Net Income	<u>\$ 81,138,579</u>	

VECTREN SOUTH
Electric Tariff

Summary of Adjustments to Net Income
Test Year Ending June 30, 2009

	Revenues	O&M Expenses	Depreciation Expense	Taxes Other Than Income	Inc. Tax Medicare Part D	State Income Tax	Federal Income Tax	Net Operating Income
Net Income per Company	\$ 553,658,624	\$ 369,952,743	\$ 74,255,452	\$ 15,359,799	\$ 433,778	\$5,918,379	\$16,132,806	\$ 71,605,667
<u>OUCC Adjustments</u>								
Weather Normalization	64,344	17,429	-	-	-	3,989	15,024	27,902
Storm Related Sales	1,111,507	263,099	-	-	-	72,135	271,696	504,577
Transmission Revenue	960,217		-	-	-	81,641	307,501	571,074
Ethanol Facilities	3,075,097		155,754	-	-	248,213	934,896	1,736,235
Wholesale Power Marketing Margins	4,016,275	-	-	-	-	341,478	1,286,179	2,388,618
Late Payment Revenue	339,777		-	-	-	28,889	108,811	202,077
Annualized Labor Costs	-	(860,480)	-	-	-	73,161	275,562	511,757
Restricted Stock Expense	-	(880,660)	-	-	-	74,877	282,024	523,759
Annual Incentive Compensation Expense	-	(1,092,677)	-	-	-	92,903	349,921	649,853
Deferred Compensation Expense	-	(569,311)	-	-	-	48,405	182,317	338,589
Pension Expense	-	(522,099)	-	-	-	44,391	167,198	310,510
Postretirement Medical Expense	-	102,003	-	-	-	(8,673)	(32,666)	(60,665)
Deferred MISO Day 1 Cost Amortization	-	(166,534)	-	-	-	14,159	53,331	99,043
Deferred MISO Day 2 Cost Amortization	-	(400,826)	-	-	-	34,080	128,361	238,385
Rate Case Expense Amortization	-	(14,600)	-	-	-	1,241	4,676	8,683
Incremental Ash Borer Expense	-	(667,590)	-	-	-	56,761	213,790	397,039
Emissions Allowance Expense	-	(379,481)	-	-	-	32,265	121,526	225,691
Gypsum Disposal Fees	-	(336,088)	-	-	-	28,575	107,629	199,883
Credit Facility Fees	-	(867,386)	-	-	-	73,748	277,773	515,865
Uncollectibles	-	14,191	-	-	-	(1,207)	(4,544)	(8,440)
IURC Fee	-	4,929	-	-	-	(419)	(1,578)	(2,931)
Asset Charge	-	(456,252)	-	-	-	38,792	146,111	271,349
Indiana Utility Receipts Tax	-	-	-	51,281	-	-	(17,948)	(33,333)
Interest Synchronization	-	-	-	-	-	17,331	65,278	(82,609)
Total OUCC Adjustments	\$ 9,567,217	\$ (6,812,333)	\$ 155,754	\$ 51,281	\$ -	\$1,396,737	\$ 5,242,866	\$ 9,532,912
OUCC Adjusted Net Income	\$ 563,225,841	\$ 363,140,410	\$ 74,411,206	\$ 15,411,080	\$ 433,778	\$7,315,116	\$21,375,672	\$ 81,138,579

VECTREN SOUTH
Electric Tariff

Calculation of State and Federal Income Tax
Test Year Ending June 30, 2009

	Amount per Company at Present Rates	OUC Adjustments	Adjusted Per OUC at Present Rates	Revenue Increase/ (Decrease)	Amounts After Revenue Increase
Operating Income before Income Taxes	\$ 94,090,630	\$ 16,172,515	\$ 110,263,145	\$ 10,776,735	\$ 121,039,880
Adjustments					
Interest Expense	(35,851,332)	203,840	(35,647,492)	-	(35,647,492)
Section 199 Manufacturing Deduction	2,925,000	-	2,925,000	-	2,925,000
Federal Permanent Differences	(2,341,506)	-	(2,341,506)	-	(2,341,506)
Indiana Utility Receipts Tax	7,405,106	51,281	7,456,387	153,184	7,609,571
Total Adjustments	\$ (27,862,732)	\$ 255,121	\$ (27,607,611)	\$ 153,184	\$ (27,454,427)
Income Subject to State Income Tax	\$ 66,227,898	\$ 16,427,636	\$ 82,655,534	\$ 10,929,919	\$ 93,585,452
Indiana State Income Tax at 8.50%	\$ 5,629,371	\$ 1,396,349	\$ 7,025,720	\$ 929,043	\$ 7,954,763
Permanent State Tax Adjustments	287,446	-	287,446	-	287,446
Total Indiana State Income Tax	\$ 5,916,817	\$ 1,396,349	\$ 7,313,166	\$ 929,043	\$ 8,242,209
Kentucky Income Tax at 0.002359%	1,562	388	1,950	258	2,208
Total State Income Taxes	\$ 5,918,379	\$ 1,396,737	\$ 7,315,116	\$ 929,301	\$ 8,244,417
Operating Income before Income Taxes	\$ 94,090,630	\$ 16,172,515	\$ 110,263,145	\$ 10,776,735	\$ 121,039,880
Adjustments					
Interest Expense	(35,851,332)	203,840	(35,647,492)	-	(35,647,492)
Book Depreciation on Non-Deferred Basis	1,217,590	-	1,217,590	-	1,217,590
Section 199 Manufacturing Deduction	(2,925,000)	-	(2,925,000)	-	(2,925,000)
Medicare Act Subsidy	-	-	-	-	-
Other Non-Deductible Expenses	(634,096)	-	(634,096)	-	(634,096)
State Income Tax	(5,918,379)	(1,396,737)	(7,315,116)	(929,301)	(8,244,417)
Total Adjustments	\$ (44,111,217)	\$ (1,192,896)	\$ (45,304,114)	\$ (929,301)	\$ (46,233,415)
Income Subject to Federal Income Tax	\$ 49,979,413	\$ 14,979,618	\$ 64,959,031	\$ 9,847,434	\$ 74,806,464
Federal Income Tax at 35%	\$ 17,492,794	\$ 5,242,866	\$ 22,735,661	\$ 3,446,602	\$ 26,182,263
Less: Amortization of ITC	(703,461)	-	(703,461)	-	(703,461)
Less: Blackfoot Production Tax Credit	(260,172)	-	(260,172)	-	(260,172)
Less: Deferred Excess Flowback, etc.	(396,355)	-	(396,355)	-	(396,355)
Net Federal Income Tax	\$ 16,132,806	\$ 5,242,866	\$ 21,375,673	\$ 3,446,602	\$ 24,822,275

Calculation of Interest Deduction

Rate Base	\$ 1,294,271,920		\$ 1,289,240,218		\$ 1,289,240,218
Weighted Cost of Debt	2.77%		2.77%		2.77%
Interest Deduction	\$ 35,851,332	\$ (203,840)	\$ 35,647,492	\$ -	\$ 35,647,492

State Income Tax Effect at 8.502359%	17,331
Federal Income Tax Effect at 35%	65,278
Interest Synchronization Adjustment	\$ 82,609

VECTREN SOUTH
Electric Tariff

Adjustment to Recognize Revised
Weather Normalization Calculation
Test Year Ending June 30, 2009

Line No.	Category	Amount Per OUC (1)	Amount Per Company (2)	Adjustment
1	Revenue - Cooling Adjustment	\$ (542,776)	\$ (541,094)	\$ (1,682)
2	Revenue - Heating Adjustment	278,614	230,288	48,327
3	Total Base Revenue Adjustment	\$ (264,161)	\$ (310,806)	\$ 46,645
4	Cost of Fuel - Cooling Adjustment	\$ (181,394)	\$ (181,394)	\$ -
5	Cost of Fuel - Heating Adjustment	134,833	117,134	17,700
6	Total Fuel Revenue Adjustment	\$ (46,561)	\$ (64,261)	\$ 17,700
7	Pro forma Revenue Adjustment to Reflect Normal Weather	\$ (310,722)	\$ (375,066)	\$ 64,344
8	Cost of Fuel - Cooling Adjustment	\$ (181,394)	\$ (181,394)	\$ -
9	Cost of Fuel - Heating Adjustment	134,833	117,134	17,700
10	Total Cost of Fuel	\$ (46,561)	\$ (64,261)	\$ 17,700
11	Less IURT	(712)	(983)	271
12	Cost of Fuel Adjustment	\$ (45,849)	\$ (63,277)	\$ 17,429
13	Net Pro Forma Margin Adjustment	\$ (264,874)	\$ (311,789)	\$ 46,915

Notes:

(1) Per response to OUC 12-6

(2) Per Petitioner's Exhibit MSH-3, Adjustment A02.

VECTREN SOUTH
Electric Tariff

Adjustment to Eliminate
Revenues Lost due to Storm Outages
Test Year Ending June 30, 2009

Line No.	Category	Adjustment (1)
1	Base Revenue - Ice Storm	\$ 643,433
2	Base Revenue - Hurricane Ike	200,886
3	Total Base Revenue Adjustment	<u>\$ 844,320</u>
4	Fuel Revenue - Ice Storm	\$ 209,563
5	Fuel Revenue - Hurricane Ike	57,624
6	Total Fuel Revenue Adjustment	<u>\$ 267,187</u>
7	Pro forma Revenue Adjustment to Eliminate Lost Sales	<u>\$ 1,111,507</u>
8	Cost of Fuel - Ice Storm	\$ 209,563
9	Cost of Fuel - Hurricane Ike	57,624
10	Total Cost of Fuel	<u>\$ 267,187</u>
11	Less IURT	4,088
12	Cost of Fuel Adjustment	<u>\$ 263,099</u>
13	Net Pro Forma Margin Adjustment	<u><u>\$ 848,408</u></u>

Note:

(1) Refer to page 2 of this schedule.

VECTREN SOUTH
Electric Tariff

Calculation of Revenue Loss due to
Test Year Major Storm Outages
Test Year Ending June 30 2009

<u>Description</u>	<u>Present Rate</u>	<u>Ice Storm</u>		<u>Hurricane Ike</u>	
		<u>Allocated kWh (1)</u>	<u>Lost Sales Revenue</u>	<u>Allocated kWh (1)</u>	<u>Lost Sales Revenue</u>
Total kWh Outage Loss (2)		8,832,648		2,428,706	
<u>Residential (Rate A)</u>					
Step 1	0.125560	1,475,608	\$ 185,277	424,539	\$ 53,305
Step 2	0.109350	3,343,825	365,647	1,376,771	150,550
Total		4,819,434	\$ 550,925	1,801,310	\$ 203,855
<u>Residential (Rate EH)</u>					
Step 1	0.122370	486,150	59,490	135,408	16,570
Step 2	0.091970	1,290,202	118,660	296,105	27,233
Step 3	0.055400	2,236,862	123,922	195,883	10,852
Total		4,013,214	\$ 302,072	627,396	\$ 54,655
Total kWh		<u>8,832,648</u>		<u>2,428,706</u>	
Total Revenue			\$ 852,997		\$ 258,510
Cost of Fuel at \$0.023726	0.023726		<u>209,563</u>		<u>57,624</u>
Net Margin			<u>\$ 643,433</u>		<u>\$ 200,886</u>
Total Base Revenue					<u>\$ 844,320</u>

Notes:

(1) Allocation to rate steps based on normalized consumption in each month as reflected on page 4 of this schedule.

(2) Refer to page 3 of this schedule.

VECTREN SOUTH
Electric Tariff

Test Year Major Storm Outage Sales Losses
Test Year Ended June 30, 2009

Ice Storm - January 27, 2009

Report	Date	Time	Count	Duration, Hrs.	Hourly Usage Factor Per Customer (2)	Total Outage kWh Loss
Initial	01/27/09	8:30 PM	8,694			
Initial	01/27/09	10:35 PM	5,846	2.08	1.53383	23,231
1	01/28/09	6:00 AM	45,466	7.42	1.53383	291,861
2	01/28/09	9:00 AM	67,285	3.00	1.53383	259,412
3	01/28/09	11:00 AM	71,619	2.00	1.53383	213,056
4	01/28/09	2:04 PM	69,939	3.07	1.53383	332,927
5	01/28/09	4:00 PM	75,022	1.93	1.53383	214,934
6	01/28/09	9:00 PM	69,344	5.00	1.53383	553,583
7	01/29/09	6:00 AM	55,773	9.00	1.53383	863,589
8	01/29/09	9:00 AM	56,293	3.00	1.53383	257,836
9	01/29/09	11:00 AM	58,718	2.00	1.53383	176,408
10	01/29/09	2:00 PM	58,379	3.00	1.53383	269,411
11	01/29/09	4:00 PM	58,373	2.00	1.53383	179,078
12	01/29/09	9:00 PM	55,401	5.00	1.53383	436,276
13	01/30/09	6:00 AM	51,613	9.00	1.53383	738,637
14	01/30/09	9:00 AM	50,398	3.00	1.53383	234,702
15	01/30/09	11:00 AM	57,268	2.00	1.53383	165,142
16	01/30/09	2:00 PM	48,188	3.00	1.53383	242,628
17	01/30/09	4:00 PM	46,461	2.00	1.53383	145,176
18	01/30/09	9:00 PM	37,838	5.00	1.53383	323,251
19	01/31/09	2:00 PM	34,526	17.00	1.53383	943,451
20	01/31/09	9:00 PM	27,553	7.00	1.53383	333,266
21	02/01/09	6:00 AM	24,773	9.00	1.53383	361,167
22	02/01/09	2:00 PM	22,054	8.00	1.53383	287,299
23	02/01/09	9:00 PM	17,762	7.00	1.53383	213,749
24	02/02/09	6:00 AM	14,150	9.00	1.53383	220,265
25	02/02/09	9:00 AM	13,250	3.00	1.53383	63,041
26	02/02/09	11:00 AM	13,200	2.00	1.53383	40,570
27	02/02/09	2:00 PM	13,000	3.00	1.53383	60,280
28	02/02/09	4:00 PM	14,129	2.00	1.53383	41,611
29	02/02/09	9:00 PM	9,605	5.00	1.53383	91,010
30	02/03/09	6:00 AM	6,206	9.00	1.53383	109,131
31	02/03/09	9:00 AM	6,829	3.00	1.53383	29,990
32	02/03/09	11:00 AM	7,634	2.00	1.53383	22,184
33	02/03/09	2:00 PM	5,368	3.00	1.53383	29,914
34	02/03/09	4:00 PM	3,945	2.00	1.53383	14,285
35	02/03/09	9:00 PM	2,489	5.00	1.53383	24,672
Final	02/04/09	6:00 AM	1,224	9.00	1.53383	25,628
Total				177.50		8,832,648

Hurricane Ike - September 14, 2008

Report (1)	Date	Time	Count	Duration, Hrs.	Hourly Usage Factor Per Customer (2)	Total Outage kWh Loss
Initial	09/14/08	12:30 PM	33,000			
Initial	09/14/08	1:36 PM	33,000	1.10	1.41991	51,543
1	09/14/08	9:15 PM	43,000	7.65	1.41991	412,768
2	09/15/08	5:45 AM	33,909	8.50	1.41991	464,116
3	09/15/08	9:00 AM	31,394	3.25	1.41991	150,677
4	09/15/08	11:00 AM	31,494	2.00	1.41991	89,295
5	09/15/08	2:00 PM	29,520	3.00	1.41991	129,952
6	09/15/08	4:00 PM	27,766	2.00	1.41991	81,341
7	09/15/08	9:00 PM	18,824	5.00	1.41991	165,384
8	09/16/08	6:00 AM	16,642	9.00	1.41991	226,613
9	09/16/08	9:00 AM	15,767	3.00	1.41991	69,027
10	09/16/08	11:00 AM	15,635	2.00	1.41991	44,588
11	09/16/08	2:00 PM	13,843	3.00	1.41991	62,784
12	09/16/08	4:00 PM	12,487	2.00	1.41991	37,386
13	09/16/08	9:00 PM	11,324	5.00	1.41991	84,524
14	09/17/08	6:00 AM	9,295	9.00	1.41991	131,747
15	09/17/08	9:00 AM	8,800	3.00	1.41991	38,540
16	09/17/08	11:00 AM	8,252	2.00	1.41991	24,212
17	09/17/08	2:00 PM	7,388	3.00	1.41991	33,311
18	09/17/08	4:00 PM	6,670	2.00	1.41991	19,961
19	09/17/08	9:00 PM	4,582	5.00	1.41991	39,942
20	09/18/08	6:00 AM	3,213	9.00	1.41991	49,807
21	09/18/08	9:00 AM	2,959	3.00	1.41991	13,146
Final	09/18/08	11:00 AM	2,705	2.00	1.41991	8,042
Total				94.50		2,428,706

Notes:

(1) Outage data per Petitioner's Outage Reports to the Commission.

(2) Reflects usage of Rate A and Rate EH customers in month of outage. Refer to page 4 of this schedule.

VECTREN SOUTH
Electric Tariff

Test Year Major Events kWh Loss Calculations
Test Year Ended June 30, 2009

	September 2008		February 2009	
	Sales (1)	Percent	Sales (1)	Percent
Rate A				
Step 1	21,835,585	17.48%	21,093,016	16.71%
Step 2	70,812,253	56.69%	47,798,166	37.86%
Rate EH				
Step 1	6,964,531	5.58%	6,949,253	5.50%
Step 2	15,229,757	12.19%	18,442,743	14.61%
Step 3	10,074,958	8.07%	31,974,722	25.32%
Total Usage	124,917,084	100.00%	126,257,900	100.00%
Customers (1)	122,188		122,493	
Usage per Customer	1,022.34		1,030.74	
Normal Billing Days (1)	30		28	
Usage per Day	34.08		36.81	
Usage per Hour	1.41991		1.53383	

Note:

(1) Per Supporting Workpapers to Exhibit MSH-3, pages 73-76 and 92

VECTREN SOUTH
Electric Tariff

Adjustment to Transmission Revenue
Test Year Ending June 30, 2009

	Amount
Transmission Revenue 12 Months Ending 3/31/2010 (1)	
Transmission Revenues - Alcoa	\$ 779,949
MISO Member Returns - MUNI	2,849,466
MISO Member Returns - All Other	1,966,573
Total Transmission Revenue 12 Months Ending 3/31/2010	\$ 5,595,988
Transmission Revenue Per Company (2)	4,635,771
Adjustment to Transmission Revenue	\$ 960,217

Notes:

(1) Per Response to OUCC 17-1.

(2) Company Exhibit MSH-3, Adjustment A16.

VECTREN SOUTH
Electric Tariff

Adjustment to Recognize Ethanol Facility Revenue and Costs
Test Year Ending June 30, 2009

		Amount (1)
Non-Fuel Margins		
November 2009	Actual	253,163
December	Actual	286,102
January 2010	Actual	309,386
February	Actual	304,223
March	Actual	344,866
April	Projected	209,852
May	Projected	210,318
June	Projected	210,358
July	Projected	240,527
August	Projected	237,824
September	Projected	233,488
October	Projected	234,989
Adjustment to Operating Revenue		<u>\$ 3,075,097</u>
Plant in Service (2)		\$ 6,194,048
Accumulated Depreciation (2)		<u>(49,116)</u>
Adjustment to Rate Base		<u>\$ 6,144,932</u>
Adjustment to Depreciation Expense (3)		<u>\$ 155,754</u>

Notes:

(1) Amounts per response to OUCC 17-3.

(2) Amounts per response to OUCC 2-15.

(3) Amount per response to OUCC 17-2.

VECTREN SOUTH
Electric Tariff

Adjustment to Wholesale Power Marketing Margins
Test Year Ending June 30, 2009

	<u>Amount</u>
Whole Power Marketing Margins per OUCC (1)	\$ 10,000,000
Whole Power Marketing Margins per Company (2)	<u>5,983,725</u>
Adjustment to Wholesale Power Marketing Margins	<u><u>\$ 4,016,275</u></u>

Notes:

(1) Per Testimony of OUCC witness David E. Dismukes.

(2) Company Exhibit MSH-3, Adjustment 16.

VECTREN SOUTH
Electric Tariff

Adjustment to Normalize Late Payment Revenue
Test Year Ending June 30, 2009

	<u>Amount</u>
Pro Forma Revenue at Present Rates (1)	\$ 563,225,841
Less: Wholesale Power Marketing Revenue (2)	(22,461,804)
Less: Transmission Revenue (3)	<u>(5,595,988)</u>
Revenue Subject to Late Payment Calculation	\$ 535,168,049
3-Year Average Late Payment Ratio (4)	<u>0.4798%</u>
Late Payment Revenue per OUCC	\$ 2,567,991
Late Payment Revenue per Company Filing (2)	<u>2,228,214</u>
Adjustment to Late Payment Revenue	<u><u>\$ 339,777</u></u>

Notes:

- (1) Per Schedule TSC-1
- (2) Per Exhibit No. MSH-S3, Adjustment A35S and Schedule TSC-9.
- (3) Per Schedule TSC-7
- (4) Calculated as follows:

	<u>12 Months ending June 30</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Late Payment Revenue	\$ 2,041,590	\$ 2,217,553	\$ 2,228,214
Adjusted Electric Service Revenue (2)	<u>409,266,855</u>	<u>472,388,776</u>	<u>472,812,290</u>
Late Payment Percentage	0.4988%	0.4694%	0.4713%
Three Year Average		0.4798%	

VECTREN SOUTH
Electric Tariff

Adjustment to Annualized Labor Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Annualized Labor Costs per OUCC (1)	\$ 40,156,165
Pro Forma Labor Costs per Company (2)	<u>41,016,645</u>
Adjustment to O&M Expense	<u><u>\$ (860,480)</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustments A20 plus A26.

VECTREN SOUTH
Electric Tariff

Adjustment to Restricted Stock & Stock Option Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Restricted Stock & Stock Option Expense per OUCC (1)	\$ 900,000
Restricted Stock & Stock Option Expense per Company (2)	<u>1,780,660</u>
Adjustment to O&M Expense	<u><u>\$ (880,660)</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustment A21.

VECTREN SOUTH
Electric Tariff

Adjustment to Incentive Compensation Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Annual Incentive Compensation Expense per OUCC (1)	\$ 2,075,108
Annual Incentive Compensation Expense per Company (2)	<u>3,167,785</u>
Adjustment to O&M Expense	<u><u>\$ (1,092,677)</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustment A22.

VECTREN SOUTH
Electric Tariff

Adjustment to Deferred Compensation Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Deferred Compensation Expense per OUCC (1)	\$ -
Deferred Compensation Expense per Company (2)	<u>569,311</u>
Adjustment to O&M Expense	<u><u>\$ (569,311)</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustment A23.

VECTREN SOUTH
Electric Tariff

Adjustment to Pension Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Pro Forma Pension Expense per OUCC (1)	\$ 1,736,911
Pro Forma Pension Expense per Company (2)	<u>2,259,010</u>
Adjustment to O&M Expense	<u><u>\$ (522,099)</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustment A24.

VECTREN SOUTH
Electric Tariff

Adjustment to Postretirement Medical Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Pro Forma Postretirement Expense per OUCC (1)	\$ 1,220,870
Pro Forma Postretirement Expense per Company (2)	<u>1,118,867</u>
Adjustment to O&M Expense	<u><u>\$ 102,003</u></u>

Notes:

(1) Per Testimony of OUCC witness Greg A. Foster.

(2) Company Exhibit MSH-3, Adjustment A25.

VECTREN SOUTH
Electric Tariff

Adjustment to the Amortization of MISO Day 1 Costs
Test Year Ending June 30, 2009

	<u>Amount</u>
Deferred MISO Day 1 Costs as of December 31, 2010 (1)	\$ 1,110,226
Proposed Amortization Period in Years	<u>5</u>
Annual Amortization Expense	\$ 222,045
Pro Forma MISO Day 1 Amortization Expense per Company Filing (2)	<u>388,579</u>
Adjustment to MISO Day 1 Amortization Expense	<u><u>\$ (166,534)</u></u>

Notes:

(1) Per Response to OUCC 2-44.

(2) Company Exhibit MSH-3, Adjustment A27.

VECTREN SOUTH
Electric Tariff

Adjustment to the Amortization of MISO Day 2 Costs
Test Year Ending June 30, 2009

	<u>Amount</u>
Deferred MISO Day 2 Costs as of December 31, 2010 (1)	\$ 2,672,172
Proposed Amortization Period in Years	<u>5</u>
Annual Amortization Expense	\$ 534,434
Pro Forma MISO Day 2 Amortization Expense per Company Filing (2)	<u>935,260</u>
Adjustment to MISO Day 2 Amortization Expense	<u><u>\$ (400,826)</u></u>

Notes:

(1) Per Response to OUCC 2-44.

(2) Company Exhibit MSH-3, Adjustment A18.

VECTREN SOUTH
Electric Tariff

Adjustment to the Amortization of Rate Case Expenses
Test Year Ending June 30, 2009

	<u>Amount</u>
Updated Rate Case Expenses (1)	\$ 1,450,000
Proposed Amortization Period in Years (2)	<u>5</u>
Annual Amortization Expense	\$ 290,000
Pro Forma Rate Case Amortization Expense per Company Filing (2)	<u>304,600</u>
Adjustment to Rate Case Amortization Expense	<u><u>\$ (14,600)</u></u>

Notes:

(1) Per Response to OUCC 17-23.

(2) Company Exhibit MSH-3, Adjustment A29.

VECTREN SOUTH
Electric Tariff

Adjustment to Ash Borer Related Line Clearance Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Incremental Ash Borer Expense per OUCC (1)	\$ -
Incremental Ash Borer Expense per Company (2)	<u>667,590</u>
Adjustment to Test Year Line Clearance Expense	<u><u>\$ (667,590)</u></u>

Notes:

(1) Per Testimony of OUCC Witness Eric Hand.

(2) Company Exhibit MSH-3, Adjustment A30.

VECTREN SOUTH
Electric Tariff

Adjustment to Emissions Allowance Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Emissions Allowance Expense per OUCC (1)	\$ 135,627
Emissions Allowance Expense per Company (2)	<u>515,108</u>
Adjustment to Emissions Allowance Expense	<u><u>\$ (379,481)</u></u>

Notes:

(1) Per Testimony of OUCC witness Cynthia M. Armstrong.

(2) Per Testimony of Company Witness Scott E. Albertson at page 15.

VECTREN SOUTH
Electric Tariff

Adjustment to Pro Forma Gypsum Disposal Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Updated Pro Forma Gypsum Disposal Expense under New Contract (1)	\$ 1,007,692
Pro Forma Gypsum Disposal Expense per Company Filing (2)	<u>1,343,780</u>
Adjustment to Gypsum Disposal Expense	<u><u>\$ (336,088)</u></u>

Notes:

- (1) Per workpapers for Adjustment A34 - Revised provided in response to informal follow-up to OUCC 17-5.
- (2) Company Exhibit MSH-3, Adjustment A34.

VECTREN SOUTH
Electric Tariff

Adjustment to Credit Facility Fees
Test Year Ending June 30, 2009

	<u>Amount</u>
Known Test Year Credit Facility Fees (1)	\$ 280,689
Pro Forma Fees per Company (1)	<u>1,148,075</u>
Adjustment to O&M Expense	<u><u>\$ (867,386)</u></u>

Notes:

(1) Company Exhibit MSH-3, Adjustment A39.

VECTREN SOUTH
Electric Tariff

Adjustment to Normalize Uncollectibles Expense
Test Year Ending June 30, 2009

	<u>Amount</u>
Pro Forma Revenue at Present Rates(1)	\$ 563,225,841
Less: Wholesale Power Marketing Revenue (2)	(22,461,804)
Less: Transmission Revenue (3)	<u>(5,595,988)</u>
Revenue Subject to Uncollectible Calculation	\$ 535,168,049
3-Year Average of Actual Write-offs (2)	<u>0.3091%</u>
Uncollectibles Expense per OUCC	\$ 1,654,360
Uncollectibles Expense per Company Filing (2)	<u>1,640,169</u>
Adjustment to Uncollectibles Expense	<u><u>\$ 14,191</u></u>

Notes:

(1) Per Schedule TSC-1

(2) Per Exhibit No. MSH-S3, Adjustment A35S and Schedule TSC-9.

(3) Per Schedule TSC-7

VECTREN SOUTH
Electric Tariff

Adjustment to Indiana Utility Regulatory Commission (IURC) Fee
Test Year Ending June 30, 2009

	<u>Amount</u>
Going Level Revenue at Present Rates (1)	\$ 563,225,841
Less: Miscellaneous Revenue (2)	(4,462,253)
Less: Wholesale Power Marketing Revenue (3)	(22,461,804)
Less: Transmission Revenue (4)	<u>(5,595,988)</u>
IURC Taxable Revenue at Present Rates	\$ 530,705,796
IURC Rate (2)	<u>0.10736%</u>
Pro Forma IURC Fees	\$ 569,766
Pro Forma IURC Fees per Company (2)	<u>564,837</u>
Adjustment to Indiana Utility Receipts Tax	<u><u>\$ 4,929</u></u>

Notes:

(1) Per Schedule TSC-1

(2) Per Exhibit No. MSH-S3, Adjustment A40S and related workpapers.

(3) Per Exhibit No. MSH-S3, Adjustment A40S and Schedule TSC-9.

(4) Per Schedule TSC-7

VECTREN SOUTH
Electric Tariff

Adjustment to Reflect Asset Charge at OUCC Rate of Return
Test Year Ending June 30, 2009

	<u>Amount (1)</u>
Utility Holdings Gross Plant	\$ 313,677,740
Accumulated Depreciation	<u>(142,131,139)</u>
Utility Holdings Net Plant	\$ 171,546,601
Grossed Up Cost of Capital (2)	<u>9.53%</u>
Asset Cost Return and Income Taxes	\$ 16,346,919
Depreciation Expense	25,180,341
Total Property Taxes	<u>1,619,283</u>
Total Charges	\$ 43,146,543
Blended Allocation Factor for Vectren South Electric	<u>25.11%</u>
Total Pro forma Asset Charge	\$ 10,833,333
Total Pro forma Asset Charge per Company	<u>11,289,585</u>
Adjustment to Asset Charge	<u><u>\$ (456,252)</u></u>

Notes:

(1) Per Company Exhibit No. MSH-3, Adjustment A57, except where noted.

(2) Reflects rate of return recommendation of OUCC Witness Korlon Kilpatrick.

VECTREN SOUTH
Electric Tariff

Adjustment to Indiana Utility Receipts Tax
Test Year Ending June 30, 2009

	<u>Amount</u>
Going Level Revenue at Present Rates (1)	\$ 563,225,841
Less: Wholesale Power Marketing Revenue (2)	(22,461,804)
Less: Transmission Revenue (3)	<u>(5,595,988)</u>
IURT Taxable Revenue at Present Rates	\$ 535,168,049
Less: Uncollectibles as Adjusted (4)	(2,567,991)
Less: Statutory Exemption (4)	<u>(1,000)</u>
Revenue Subject to Indiana Utility Receipts Tax	\$ 532,599,058
IURT Tax Rate (4)	<u>1.40%</u>
Pro Forma Indiana Utility Receipts Tax	\$ 7,456,387
Pro Forma Indiana Utility Receipts Tax per Company (4)	<u>7,405,106</u>
Adjustment to Indiana Utility Receipts Tax	<u><u>\$ 51,281</u></u>

Notes:

(1) Per Schedule TSC-1

(2) Per Exhibit No. MSH-S3, Adjustment A52S and Schedule TSC-9.

(3) Per Schedule TSC-24.

(4) Per Exhibit No. MSH-S3, Adjustment A52S and related workpapers.

VECTREN SOUTH
Electric Tariff

Adjustment to Coal Inventory
Test Year Ending June 30, 2009

	<u>Amount</u>
Recommended Coal Inventory Balance per OUCC (1)	\$ 24,890,073
Proposed Coal Inventory Balance per Company (1)	<u>36,066,707</u>
Adjustment to Coal Inventory included in Rate Base	<u><u>\$ (11,176,634)</u></u>

Notes:

(1) Per Testimony of Michael D. Eckert, Attachment MDE-1.

VECTREN SOUTH
Electric Tariff

Determination of Revenue Increase/(Decrease)
Test Year Ending March 31, 2006

	Per Company	Per OUCC	Source
Rate Base	\$ 1,294,271,920	\$ 1,289,240,218	Schedule TSC-2
Required Rate of Return	7.42%	6.79%	
Net Operating Income Required	\$ 96,034,976	\$ 87,539,411	
Net Operating Income at Present Rates	71,605,667	81,138,579	Schedule TSC-1
Increase in Net Operating Income	\$ 24,429,309	\$ 6,400,832	
Revenue Multiplier	1.71472	1.71472	See Note (1)
Revenue Increase/(Decrease)	\$ 41,889,416	\$ 10,975,631	
Difference		\$ (30,913,785)	

Note:

(1) Calculation of Conversion Factor

	Rate	Per Vectren South	Per OUCC
Revenues		1.00000	1.00000
Bad Debt		0.003091	0.0030913
Base for Indiana Utility Receipts Tax		0.996909	0.996909
Indiana Utility Receipts Tax	1.40%	0.013957	0.01395672
IURC Fee	0.10736%	0.0010736	0.00107360
Subtotal		0.981878	0.98187839
Add back IURT		0.0139567	0.0139567
Net State Taxable Income		0.9958351	0.9958351
Indiana SIT Rate	8.50%	0.0850000	0.0850000
State Income Tax		0.0846460	0.08464598
Kentucky SIT Rate	0.002359%		0.00002359
State Income Tax		0.00002359	0.00002349
Net Federal Taxable Income		0.89720881	0.89720891
FIT Rate	35.00%	0.35000000	0.35000000
Federal Income Tax		0.31402308	0.31402312
Revenue Conversion Factor		0.5831857	0.5831858
Revenue Multiplier		1.7147196	1.7147194

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VERIFICATION

STATE OF MARYLAND)
) ss:
COUNTY OF HOWARD)

The undersigned, Thomas S. Catlin, under penalties of perjury and being first duly sworn on his oath, says that he is a Vice President and Principal of Exeter Associates, Inc., a Consultant for the Indiana Office of Utility Consumer Counselor; and in the matter of Cause No. 43839 that he caused to be prepared and read the foregoing that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

Dated: June 23, 2010
Thomas S. Catlin
By:

Subscribed and sworn to before me, a Notary Public, this 23 day of June, 2010.

Deborah M. Adams
Signature
Deborah M. Adams
Printed Name

My Commission Expires: 2/2011

My County of Residence: P.G.